Arizona State Retirement System and National Health Care Reform: A timeline of potential impacts as of April 1, 2010

With the recent signing of the federal Patient Protection and Affordable Care Act and subsequent Amendment by President Obama, the Arizona State Retirement System has developed the following information related to the potential impact to our members, especially retirees, on the ASRS retiree health insurance program.

At this time, it appears there will be a moderate impact to ASRS retirees enrolled in any of the current ASRS health insurance program plans. Premiums, co-pays, coverage and most other aspects of the current ASRS health insurance plans will remain unchanged by the new legislation.

Some of the relevant provisions in the legislation, and the impact to the ASRS this year, are as follows:

2010

- Establishment of a national high-risk health insurance pool to provide affordable coverage for the uninsured with pre-existing medical conditions (effective 90 days after enactment until Jan. 1, 2014).
  Impact to the ASRS: ASRS retiree health insurance programs currently allow enrollment for any qualified retiree with no restrictions to those with pre-existing medical conditions.

- Dependent children coverage extended to age 26.
  Impact to the ASRS: ASRS retiree health insurance program currently allows coverage extension to dependent children through age 25 (which is the same as "to age 26").

- Elimination of lifetime limits and bars canceling coverage except for fraud.
  Impact to the ASRS: This provision will have a positive impact for ASRS retirees enrolled in the Senior Supplement and non-Medicare PPO plans. Current limits to coverage on these ASRS plans range from $2 million to $5 million in lifetime coverage, although historically lifetime limits have rarely been an issue for retirees. ASRS retirees enrolled in the non-Medicare HMO and MedicareComplete plans already enjoy no lifetime limits.

- Narrows the Medicare Part D prescription drug coverage gap by providing up to a $250 rebate from the federal government for insured members in the donut hole who are also not eligible for the Low Income Subsidy.
  Impact to the ASRS: Medicare eligible ASRS retirees enrolled in the Senior Supplement plan would benefit from this requirement because that plan has a Medicare Part D equivalent drug plan with a donut hole. Enrolled retirees in the MedicareComplete plan have no prescription drug coverage gap and, as a result, do not have a donut hole in their prescription drug coverage.

- Medicare payments to hospitals, home health agencies, nursing homes, and hospices will be reduced.
  Impact to the ASRS: This provision may cause medical loss ratios (medical expenses to revenue) to increase causing upward pressure on future plan premiums.

- Prohibits insurers from denying coverage to children under age 19 with pre-existing medical conditions.
  Impact to the ASRS: The ASRS retiree health insurance program currently allows enrollment of any eligible dependent child regardless of pre-existing medical conditions.

Future provisions included in the legislation are outlined below. It's too early to determine if any of these provisions will have an impact on current or future ASRS retiree health insurance plans and programs.

2011

- Creation of a long-term care insurance program to provide a modest cash benefit ($50/day) – benefit can begin five years after people start paying a premium for the coverage through payroll deduction.
- Provides additional Medicare Part D prescription drug coverage for those in the donut hole with by offering a 50% discount on brand name drugs.
- Freezes payments to Medicare Advantage plans and further reductions would be phased on over three to seven years.
- Employers will be required to disclose the value of each employee's health coverage on the employee's annual Form W-2 that is filed with the IRS.
- Select preventive services are to be provided at no cost to enrolled members (immunizations, preventive care for infants, children, adolescents, and additional preventive care for women).
- A temporary reinsurance program will be implemented to offset cost of providing health insurance to retirees age 55 and older but who are not yet Medicare eligible. This program will reimburse plans for 80% of retiree claims between $15,000 and $90,000. This program ends December 31, 2013 or when the $5 billion fund is exhausted, if sooner.

2012

- Set up program to create nonprofit insurance co-ops that would compete with commercial carriers.
- Initiates Medicare payment reforms by encouraging hospital and doctors to band together in quality-driven "accountable care organizations."
- Penalizes hospitals with high rates of preventable readmissions by reducing Medicare reimbursements.
- Reduces rebates for Medicare Advantage plans.

2013

- Standardizes insurance company paperwork and administration (Federally prescribed appearance, content, language, and timing).
- Limits medical expense contributions to tax-sheltered flexible spending accounts to $2,500 per year, indexed for inflation and reimbursement of over-the-counter medications will be limited to those that require a prescription.
- Raises the Federal threshold for claiming itemized tax deduction for medical expenses from 7.5% to 10% (people over age 65 may still deduct medical expenses above 7.5% of income through 2016). The State of Arizona allows full deduction for itemized medical expenses.
- Increases Medicare payroll tax on individuals earning more than $200,000 and on joint filers earning more than $250,000 (tax rate would increase from current 1.45% to 2.35%).
- Establishes a new tax of 3.8% on net investment income, such as dividends and interest, for individuals with adjusted gross incomes above $200,000 and joint filers with AGI above $250,000. Net investment income excludes distributions from tax-qualified plans.

2014

- Prohibits insurers from denying coverage to people with pre-existing medical conditions or refusing to renew policies.
- Prohibits insurers from limiting coverage based on pre-existing conditions or charge higher rates to those in poor health.
- Premiums can only vary by age (limited to a 3 to 1 ratio), place of residence, family size and tobacco use.
- Individual states to create new health insurance exchanges to facilitate the offering and purchase of approved, qualified health plans offered to individuals up to age 65 and to small employers for employees up to age 65.

- Provides income based tax credits for households below four times the federal poverty level, or about $88,000 per year for a family of four.
- Medicaid expanded to cover low-income people up to 133% of the federal poverty level, or about $29,300 for a family of four.
- Requires citizens and legal residents to have health insurance or pay a fine (penalty starts at $95 per person in 2014 rising to $695 per person in 2016; family penalty capped at $2,250).

2020

- Donut hole coverage gap in a Medicare Part D prescription drug plan is phased out.

NOTE: These are by no means all of the provisions contained within the extensive new laws affecting health care reform.

We have tried to capture those provisions that are deemed to have an immediate impact on the ASRS retiree health insurance program and to identify those provisions that, in the future, may affect how the ASRS provides retiree health insurance to its eligible retirees, disabled members, and eligible dependents.

The ASRS will continue to provide updates on this issue as more information and its impact becomes available.